

Threats to the opening of the postal sector in Europe

In European Union countries, postal markets have been opened to competition for items weighing more than 50 grams. Many national monopolies subsist on items that weigh less than this limit. Under the impetus of EU policy, full opening of these markets must occur not later than 2011. Consumers – whether business or individuals – can legitimately expect prices to come down or the quality of service they receive to go up (for instance, higher rates of next-day delivery).

Nonetheless, the benefits to consumers from this liberalisation are threatened by the imposition of non-contractual social standards, such as the institution of a legal minimum wage in the German postal market in December 2007. These measures are anti-competitive barriers to entry that directly limit the possibility of employers and employees agreeing freely on contracts in the labour market and thereby secure any job creation chances.

COMPETITION IS AN OPPORTUNITY FOR CONSUMERS

The opening of competition in the postal market is often criticised on grounds that it would harm some consumers whom private companies would not serve or who would have to pay more to send their mail. To avoid this, various governments have until now established universal service obligations, fulfilled by postal monopolies.

But the argument that these monopolies must be maintained to preserve universal service is mistaken. Countries such as Finland, Sweden and the United Kingdom have abolished their postal monopolies while preserving universal service.¹ The issue of universal service should thus not be blocking debate on the benefits of opening up the postal market to competition.

This opening is an opportunity for consumers. When several postal companies compete, they have incentives to serve consumers better, offering higher-quality service at lower cost. A company that failed to show this concern would be condemned to disappear sooner or later. Under the pressure of competition, companies

also have incentives to reduce their costs. Moreover, it is in their interest to offer services that did not exist previously.

The benefits to consumers of liberalised postal markets are potentially quite substantial. This can be recognised in examples taken from postal markets that have already been liberalised.

Sweden was one of the first European countries to take a major step toward liberalisation of its postal market in 1993.² The former public monopoly disappeared for all types of mail. In an explanation to the French Senate,³ Nils Gunnar Billinger, the general manager of Sweden's National Post and Telecom Agency, drew a positive picture of the result, stating that prices "are within the European average." Meanwhile, Swedish postal services "have evolved considerably and have become one of the world leaders. Management, rationalisation and modernisation of services have had positive effects."

Outside Europe, particularly in New Zealand and Australia, price decreases were observed after postal markets were opened to competition (although



Economic Note prepared by **Guillaume Vuilleme**, researcher at the Institut économique Molinari.

May 2008

1. In reality, maintaining universal service in itself constitutes a barrier to entry creating distortions in the postal market, as shown by a recent study on the case of England. See "The challenges and opportunities facing UK postal service," Department for Business, Enterprise and Regulatory Reform, England, May 2008, available at: <http://www.berr.gov.uk/files/file46075.pdf>.

2. See "The liberalised Swedish postal market: the situation 14 years after the abolition of the monopoly," National Post and Telecom Agency, Sweden, March 2007, p. 3, available at: http://www.pts.se/upload/Documents/EN/Postal_liberalisation_2007_march07.pdf.

3. See Gérard Larcher, "Postes européennes : libéralisation et service public, entre mythes et réalités," Senate information report n° 176, 2002, available at: <http://www.senat.fr/rap/r01-176/r01-1762.html>.

IEM's Economic Note

not fully in the latter country). An OECD study states that, in those two countries, "the incumbent postal operator is profitable and has reduced real prices consistently over a number of years. New Zealand reported competitors offering significantly lower prices than the incumbent."⁴

New competitors may also be expected to emerge from other sectors of the economy, offering innovative products as well as lower prices. In France, for example, Sodexi, a subsidiary of the airline company Air France-KLM (with Geopost and TAT S. A. as minority shareholders), has already announced that it intends to offer postal and express services to small businesses and individuals, using commercial flights to handle shipments. Sodexi says it would offer these services at prices up to 40% below those from the competition.⁵

Existing and prospective competition has also pushed La Poste, France's incumbent postal monopoly, toward improving the quality of its service. This benefits consumers and can help La Poste aim to become more competitive with

future rivals. As economists Francis Bloch and Axel Gautier have stated, "increasing the productivity of the delivery network is a key challenge for postal operators in a perspective of full market opening."⁶ In the last few years, major upheavals have occurred. Next-day delivery is more common (82.5% of priority letters in 2007⁷ compared to 65.7% in 2003⁸). Parcels are distributed within two days of being sent 91.6% of the time compared to 81.5% in 2003. Since 2005, with help from the private sector, 1,500 relay points have been opened in rural areas, at cafés, bakery shops or grocery stores, thereby holding down mail collection and distribution costs.

Competition in the European postal market would enable consumers to benefit from better rates and higher-quality service, with more frequent collections, more flexible opening hours of relay points, higher levels of next-day delivery, lower rates of mail loss and new products that are better adapted to demand.

"Competition in the European postal market would enable consumers to benefit from better rates and high-quality service."

THE MINIMUM POSTAL WAGE AND OTHER LEGAL MEASURES THREATEN COMPETITION

National monopolies, benefiting from an absence of competition, currently offer their employees many benefits in terms of pay, working hours and pensions. To protect these monopolies from future competition, some governments are attempting to impose by law a standardisation of wages and benefits throughout the postal sector. Germany's implementation in 2007 of a minimum wage solely in this sector is an illustration of this.

Imposing a minimum wage (or other non-contractual social standards) adds to labour costs for companies, though. Contracts that would have been signed in its absence fail to materialise because of these rigidities.

Such regulatory standards create an artificial added cost to entering a market, reducing opportunities for earnings and for the profitability of potential new competitors. They thus act as real barriers to entry, protecting the existing traditional monopolies.

As such, new projects that could create jobs may not see the light of day. Consumers may not be able to benefit from postal services that cost less and are better adapted to their needs.

The minimum wage imposed in the German postal sector is thus a major barrier to entry in this market. Its institution has disrupted an opening to competition not only in Germany but also in the Netherlands and France.

Both the Netherlands and Germany had planned to liberalise their postal markets jointly on 1 January 2008 to give their consumers the benefit of higher-quality service. But this opening was postponed when the creation of a minimum wage in Germany was announced in December 2007. While Deutsche Post would have had a chance to compete with TNT (the biggest mail distribution group in the Netherlands) in the Dutch market by offering lower prices, TNT would not have been able to enter the German market without seeing its wage costs go up 20% to 30%, in line with Germany's postal minimum wage.

4. OECD, Promoting Competition in the Postal Sector, available at:

http://www.oecd.org/document/63/0,3343,en_21571361_34590630_1903679_1_1_1_1,00.html.

5. See the Sodexi news release. 21 February 2008, available at: http://www.envoimoincher.com/presse/Communique_de_presse EMC-sodexi.pdf.

6. See Francis Bloch and Axel Gautier, "Access, bypass and productivity gains in competitive postal markets," in *Competition and Regulation in the Postal and Delivery Sector*, edited by Michael A. Crew and Paul R. Kleindorfer, 2008, p. 131.

7. La Poste, Résultats 2007, available at: http://www.laposte.fr/groupe_poste_information_financiere_resultats_2007_904.html.

8. La Poste, Rapport d'activité 2004, available at: http://www.laposte.fr/IMG/pdf/rapport_d_activite_2004.pdf.

IEM's Economic Note

This gave Deutsche Post protection from its foreign competitors and was the pretext for the delay in allowing competition in the neighbouring postal market in the Netherlands.

German consumers of postal services have lost out from the institution of a minimum wage because they are left without the advantages that competition would have brought them. But this delay also harms Dutch consumers, whose government's reaction deprives them of the lower rates or higher-quality service they could have had with more open competition.

In France, Adrexo Mail, a small company competing with La Poste in addressed mail, chose to cease activities in March 2008. In addition to France's two-year delay in opening up the postal sector, postponed from 2009 to 2011, the stated reasons also concern the "obstacles encountered by alternative European postal operators," especially on the German and Dutch markets, and by "regulatory constraints likely to be applied to alternative operators."⁹

COMPULSORY LEGAL MEASURES BLOCK JOB CREATION

Throughout the negotiations aimed at opening up the European postal market, the issue of jobs has been quite prominent. Despite the difficulties in producing precise figures on the job impact of opening up the entire postal market, it is nonetheless clear that, in providing for innovation, lower prices and greater adaptation to consumers' varied and changing needs, the opening to competition could be a powerful growth factor. According to a study following the opening of the postal market in the United Kingdom, the new competitors – UK Mail, TNT and DHL Global Mail – had already created 3,000 new jobs.¹⁰

If opening the market to competition for letters under 50 grams meets demand from businesses or individuals for more regular collections, better guar-

antees of next-day delivery, and so on, this would undoubtedly allow for the creation of new services. To the extent that more workers are needed, the various competitors would end up creating new jobs, apart from the fact that traditional operators, in their efforts to modernise, rationalise and restructure their networks, may be led to reduce staff, as was the case in Sweden. If the market is more dynamic, the creation of new and more plentiful jobs generally follows.

There is no shortage of examples showing that liberalisation of a market can revitalise it and possibly create numerous jobs. One of the most obvious examples is in telecommunications. In France, this sector has been open to competition since 1998, when France Télécom lost its monopoly. This liberalisation greatly stimulated technological innovation, allowing more services to be provided, at lower cost.¹¹ The effects on

employment ended up being highly positive.¹² According to Eurostat, nearly 149,000 new jobs were created in Europe's telecommunications sector between 1995 (when some governments began liberalising) and 2000, in the early years after the opening to competition.¹³

Putting new services on the market, thereby creating value in consumers' eyes is the only way to create lasting jobs, and the postal market is no exception in this regard. For job creation to be possible in optimal quantities, companies and employees must be free to reach contract agreements that are mutually favourable.

Conversely, by using the law to impose identical conditions on all wage-earners in the same branch, lawmakers are not only erecting obstacles to the hiring of new wage-earners by increasing the cost of labour but also are simultaneously eliminating benefits for the users of services that will simply not be provided.

This is how Germany's imposition of a minimum

"By imposing social legislation similar to the minimum postal wage in Germany, lawmakers in member countries are closing off the postal market. This ends us reducing or even eliminating the benefits of liberalisation."

9. See "Communication: l'activité d'Adrexo Mail arrêtée fin mars," Agence France-Presse dispatch, 20 February 2008, available at: <http://www.daily-bourse.fr/news.php?news=AFP080220113853.1f7ojirs&isin=FR0000131732>.

10. See Europe Economics, "The Benefits of Competition in the UK Mail Market," 12 March 2008, p. I, available at: [http://www.postinsight.com/files/Europe_Economics_-_Benefits_of_Competition_in_the_UK_Mail_Market_\(12Mar2008\).pdf](http://www.postinsight.com/files/Europe_Economics_-_Benefits_of_Competition_in_the_UK_Mail_Market_(12Mar2008).pdf).

11. See Bruno Retailleau, "Dix ans après, la régulation à l'ère numérique," Senate Information Report n° 350, 2007, pp. 29-38, available at: <http://www.senat.fr/rap/r06-350/r06-3501.pdf>.

12. See Pierre Hérisson, Senate Information Report n° 273 Assessing Law n° 96-659 Regulating the Telecommunications, 2002, p. 37, available at: <http://www.senat.fr/rap/r01-273/r01-2731.pdf>.

13. See Martti Lumio and Lucia Cecilia Sinigaglia, "Telecommunications in Europe," Statistics in Focus, Eurostat, 2003, available at: http://epp.eu-rostat.ec.europa.eu/cache/ITY_OFFPUB/KS-NP-03-012/EN/KS-NP-03-012-EN.PDF. After a sharp rise following liberalisation of the telecommunications sector, use declined in recent years for a number of reasons.

IEM's Economic Note

wage in the postal sector has already had major effects on employment. For example, a potential competitor to Deutsche Post, Pin Group, has had to lay off large numbers of workers. The minimum wage (set at between 8.00 and 9.80 euros) is much higher than the wages currently paid by this group, which can no longer compete. Axel Springer, the majority shareholder, has decided not to inject any more capital into the company. In April 2008, more than one-half of the positions had already been eliminated, costing 5,760 jobs.¹⁴

The social regulations imposed under the law are of a sort to destroy jobs in addition to threatening competition. Moreover, by raising labour costs for new entrants, they are barriers to entry in the postal market where this type of cost predominates.¹⁵ Having fewer new entrants automatically means less dynamism in creating jobs that otherwise would have arisen in this sector.

Furthermore, by blocking competition, these regulations contribute to keeping prices higher and thereby prevent the freeing of purchasing power that consumers could then direct to sectors other than the postal sector. This in turn would provide for the creation of new jobs. This is how an opening in one sector can potentially create jobs in other areas.

All this plays a direct role in meeting Europe's full employment goals, whether under the Lisbon strategy or under the European Employment Strategy.

As a result, legal measures like Germany's postal minimum wage jeopardize not only the advantages that consumers expect from the opening of this market but also the full employment goals declared by the EU.

14. See "Pin : licenciements massifs," in *L'essentiel*, 3 April 2008, available at: <http://www.lesessentiel.lu/news/economie/story/17370774>.

15. Wage costs may represent up to 80% of postal companies' costs. Source: John C. Panzar, "Recent Developments in Postal Liberalization and Regulation," presentation made at Brisbane in 2007, available at: https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=ESAM07&paper_id=246.

The Institut économique Molinari is an independent, non-profit research and educational institute. It endeavors an economic approach to the study of public policy issues.

The Institut économique Molinari has taken on the mission of offering innovative alternative solutions that encourage prosperity for all individuals forming society.

Reproduction is authorized on condition that the source is mentioned.

Printed in Belgium

Design: Gilles Guénette

CONCLUSION

Liberalisation of European postal markets is an opportunity for significant improvement in the service provided to consumers: lower prices, better quality in existing services and the creation of new services

By unilaterally imposing social standards, lawmakers in member countries are closing off the postal market. This ends us reducing or even eliminating the benefits of liberalisation. The implementation of a minimum wage in the German postal sector has already had a number of negative effects in this regard.

By favouring innovation and enabling new services to be offered, competition can generate new jobs. But because social measures imposed by lawmakers contribute to raising the cost of labour, they effectively block the creation of some of these jobs while depriving consumers of the services these wage-earners would have produced. These obstacles are imposed to the detriment both of consumers and of persons who will end up not being hired.

Contractual freedom between employers and employees must accompany an opening to competition in the postal market. In this regard, it is a key factor in creating lasting jobs and enabling new services to be offered.



Institut Economique Molinari

Belgium Address

Rue du Luxembourg
23, boîte 1
1000 Bruxelles
Belgium

France Address

1 rue Edouard Branly
92130 Issy les Moulineaux
France

www.institutmolinari.org